Quarterly Economic Wrap

September 2023

Summary

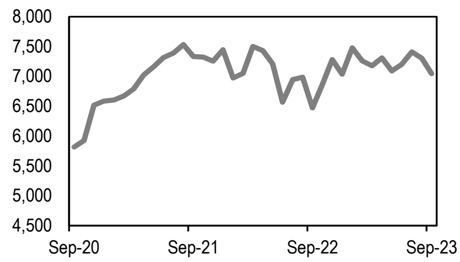
Economic

- According to the OECD, the global economy proved more resilient than expected in the first half of 2023, but the growth outlook remains weak. With monetary policy becoming increasingly visible and a weaker-than-expected recovery in China, global growth in 2024 is projected to be lower than in 2023. While headline inflation has been declining, core inflation remains persistent, driven by the services sector and still relatively tight labour markets.
- The world economy is expected to grow by 3.0% in 2023, before slowing down to 2.7% in 2024. A disproportionate share of global growth in 2023-24 is expected to continue to come from Asia, despite the weaker-than-expected recovery in China.

Markets

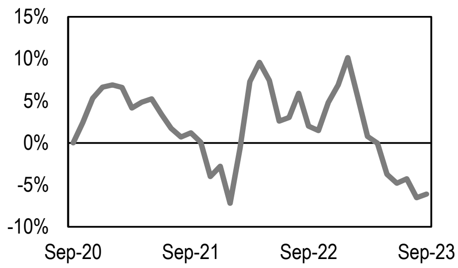
- Share market performance was poor for the September quarter. The S&P 500 lost 3.7%, while the Australian S&P 200 lost around 2.2% on a price basis.
- Global shares ex-Australia lost ground over the quarter, producing a return of -0.4% on an unhedged basis. The result was worse for hedged global shares, losing 2.8%.
- In Australia, Value and Value-Weighted were the best performing styles for the quarter. Globally, all sectors were negative, with Value-Weighted and Value being the best performers i.e. least negative. Energy stocks were relatively resilient over the quarter, and one of few bright spots in a quarter where few sectors avoided falls. Most of the so-called "Magnificent Seven" - Apple, Microsoft, Alphabet, Amazon, Tesla, Nvidia and Meta – declined, weighing on the overall market.
- Within Fixed income markets, Australian government bonds lost ground, while credit produced a solid return for the quarter. The main Australian fixed interest index, the Bloomberg AusBond Composite 0+ Years Index was down 0.3%, while the Bloomberg AusBond Credit 0+ Years Index gained 1.3% for the quarter.
- Global High Yield bonds, as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged into AUD gained a mediocre 0.2% for the quarter.

1. S&P/ASX 200 Price Index



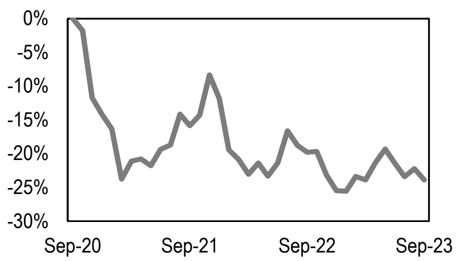
Source: FactSet, Insignia Financial

2. ASX200 vs All-World, US$ terms



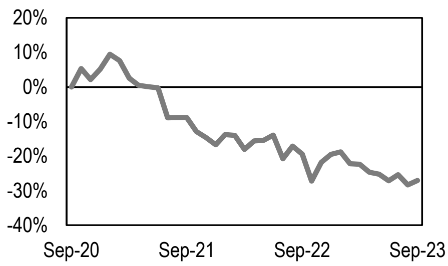
Source: FactSet, Insignia Financial

3. Australia – Growth vs Value stocks



Source: FactSet, Insignia Financial

4. Emerging markets vs Developed Markets, (In USD)



Source: FactSet, Insignia Financial

Sector and stock returns – September 2023

ASX/S&P 200 Sectors (GICS)				
	Monthly	% ∆	Quarterly	% ∆
▼	Consumer Discretionary	-3.82	Consumer Discretionary	4.05
▼	Consumer Staples	-2.22	Consumer Staples	-7.33
▲	Energy	1.32	Energy	8.05
▼	Financials ex Property	-3.19	Financials ex Property	-2.06
▼	Financials	-1.72	Financials	1.36
▼	Health Care	-6.89	Health Care	-9.29
▼	Industrials	-3.79	Industrials	-3.91
▼	IT	-8.01	IT	-5.90
▼	Materials	-3.66	Materials	-4.51
▼	Property Trusts	-8.72	Property Trusts	-3.63
▼	Telecommunications	-4.00	Telecommunications	-3.30
▼	Utilities	-2.93	Utilities	-3.34

Source: FactSet, Insignia Financial

Best and Worst S&P/ASX 200 Performers			
Top five stocks (%)		Bottom five stocks (%)	
Monthly			
Paladin Energy Ltd	+30.2	Chalice Mining Limited	-35.0
Coronado Global Res. Shs CDIs	+23.1	Star Entertainment Group Limited	-34.0
Whitehaven Coal Limited	+16.7	Cromwell Property Group	-23.7
Pro Medicus Limited	+13.7	Block, Inc. Shs CDIs	-23.0
New Hope Corporation Limited	+12.8	De Grey Mining Ltd	-22.0
Quarterly			
Megaport Ltd.	+63.0	Chalice Mining Limited	-62.9
Paladin Energy Ltd	+50.7	Core Lithium Ltd	-55.0
Karoon Energy Ltd	+34.0	Sayona Mining Ltd.	-46.9
G.U.D. Holdings Limited	+33.4	IRESS Limited	-43.2
New Hope Corporation Limited	+30.9	Star Entertainment Group Limited	-42.9

Source: FactSet, Insignia Financial

Share Markets, Returns

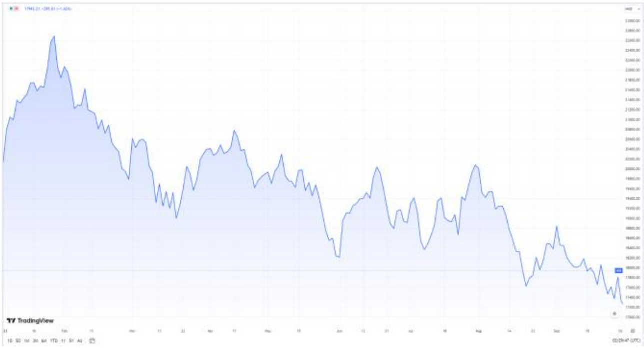
	Australian Indices	30 Sep 2023 Price	1M return (%)	30 Jun 2023 Price	3M return (%)
▼	S&P/ASX 200	7049	-3.51	7203	-2.15
▼	All Ordinaries	7250	-3.57	7402	-2.05
▼	Small Ords	2713	-4.70	2794	-2.91
	US Indices				
▼	S&P 500	4288	-4.87	4450	-3.65
▼	Dow Jones	33508	-3.50	34408	-2.62
▼	Nasdaq	13219	-5.81	13788	-4.12
	Asia Pacific Indices				
▼	Hang Seng	17810	-3.11	18916	-5.85
▼	Nikkei 225	31858	-2.34	33189	-4.01
	UK & Europe Indices				
▲	FTSE 100	7608	2.27	7532	1.02
▼	CAC40	1331	-0.84	1330	0.02
▼	DAX Index	15387	-3.51	16148	-4.71

Sources: FactSet, MSCI, FTSE, S&P, Insignia Financial
Note: return is reported on a price basis and in local currency terms e.g., S&P500 performance is in US dollars and excluding dividends.

Most equity markets experienced negative returns in their local currency over the past three months. A key driver of the equity market weakness has been a valuation reassessment based on rising U.S. interest rates. Over the quarter, the U.S. official cash rate was raised by 0.25% in July, followed by cautious maintenance of the rate in subsequent meetings, while the U.S. 10-year yields have risen more extensively (+0.752%), the resilience of the U.S. economy has removed any near-term recession concerns (and thereby any short-term need to reduce rates).

Over the quarter, the Nasdaq valuations (-4.12%) suffered from the higher U.S. 10-year yields, however, the Hong Kong equity market continues to be weighed down by the negative outlook for the Chinese economy.

Hang Seng: CYTD up to 29 September 2023



Source: tradingview.com. Accessed 13/10/2023

Returns to 30 Sep 2023	1-mth	3-mth	6-mth	1-yr
MSCI World Index	-3.7%	-2.5%	4.6%	21.1%
Value	-2.1%	-0.8%	2.8%	16.7%
Value-Weighted	-1.6%	-0.2%	5.7%	22.3%
Momentum	-3.1%	-1.7%	3.2%	11.9%
Growth	-5.1%	-4.1%	6.3%	25.1%
Quality	-4.4%	-2.2%	7.5%	28.7%
Low volatility	-1.9%	-1.9%	0.6%	10.5%
Equal weight	-3.1%	-2.2%	2.0%	17.0%
Small caps	-4.1%	-3.0%	1.0%	14.1%

Source: FactSet, Insignia Financial, MSCI

Global equities took a step back over the quarter with the value investment style providing slightly better capital protection. Low volatility also showed some capital protection over the quarter, a characteristic that long-term investors expect from the factor.

Following an a strong rebound in the prices of growth and quality companies since September 2022, the quarter saw valuations pull back in both factors, with quality showing slightly better capital protection. This capital protection characteristic had been lacking from quality investing in early 2022, as their prices were stretched dramatically from the extraordinarily low interest rates. Global small caps lagged the broader market reflecting both a reduction in risk tolerance, as well as strength in a narrow number of large cap stocks.

Australian equity markets

The Australian market, as measured by the S&P/ASX 200 Index declined -2.15% in the September quarter, while the slightly larger market cap MSCI index only declined -0.3%.

Returns to 30 Sep 2023	1-mth	3-mth	6-mth	1-yr
MSCI Australia Index	-2.5%	-0.3%	0.6%	14.9%
Value	-1.1%	1.4%	1.1%	19.2%
Value-Weighted	-1.6%	1.4%	2.0%	17.8%
Momentum	-1.7%	-0.8%	1.5%	14.7%
Growth	-3.9%	-1.9%	0.4%	11.0%
Quality	-3.0%	0.7%	0.5%	19.3%
Low volatility	-2.5%	-1.4%	0.0%	14.6%
Equal weight	-3.9%	-2.0%	0.8%	17.1%
Small caps	-4.1%	-1.2%	0.5%	7.6%

Source: FactSet, Insignia Financial, MSCI

Similar to our global counterparts, the MSCI Australia Index Value sub-category provided strong capital protection during a subdued quarter. Prices of growth companies and small companies also felt the brunt of higher 10-year bond yields and the risk off environment. It is notable that the Quality factor provided a positive 3-month return reinforcing the attractiveness of stable earnings.

Fixed Income

	Fixed Income	30 Sep 2023 Yield	1M mvt (bps)	30 Jun 2023 Yield	3M mvt (bps)
	Australian Cash rate	4.10	--	4.10	--
▲	10-year Bond Yield	4.49	0.46	4.02	0.47
▲	3-year Bond Yield	4.08	0.34	4.05	0.04
▲	90 Day Bank Accepted Bills SFE-Day	4.49	0.05	4.80	-0.31
▲	US 10-year Bond Yield	4.57	0.48	3.81	0.76
▲	US 3-year Bond Yield	4.80	0.27	4.49	0.31
▲	US Investment Grade spread	1.47	0.02	1.51	-0.03
▲	US High Yield spread	3.94	0.22	3.90	0.04

Source: FactSet, Insignia Financial

Australian bond market

The September quarter was not good for bonds. The main Australian Fixed Interest index, the Bloomberg AusBond Composite 0+ Years Index lost 0.3% for the quarter. Australian yields rose over the quarter, with the short end (3-year) of the curve rising by a relatively small 4 basis points. At the long end of the curve, the 10-year yield rose by a very significant 47 basis points.

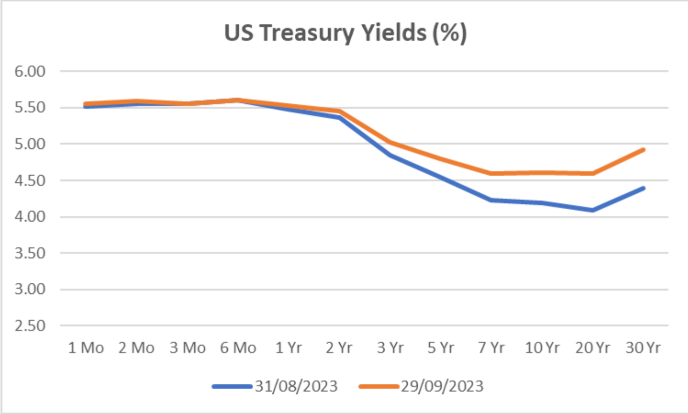
Australian corporate bonds performed reasonably well for the quarter, with the Bloomberg AusBond Credit 0+ Years Index gaining 1.3%.

The yield to maturity for the Bloomberg AusBond Composite 0+ Years Index at the end of the September quarter was approximately 4.55%, with the index having around 5 years duration.

Global bond markets

Over the quarter, U.S. Government bond yields rose for maturities of greater than or equal to 1 year. Anything shorter than 1 year was fairly flat. As can be seen in the following chart, the U.S. yield curve rose significantly at the long end of the curve, but was close to unchanged for anything less than 1 year to maturity.

Note that the 2-year / 10-year part of the curve ended September (-85bps) less inverted than was the case at the end of August (-118bps), but is still clearly indicating that a recession is expected in the near term.



Source: U.S. Department of the Treasury, accessed 04/10/2023

During Q3 the U.S. economy continued to surprise in its resilience, with the labour market remaining relatively robust and signs of improvement in the manufacturing sector. Concerns over rising U.S. debt issuance weighed on the Treasury market. August saw Fitch Ratings downgrade the US's triple-A rating drop to double-A plus, citing the growing debt burden and an "erosion of governance" as reasons for its decision.

Corporate bond markets outperformed government bonds, with spreads narrowing across both investment grade and high yield. Despite a weaker growth trajectory, European credit outperformed the US.

Both the U.S. Federal Reserve (Fed) and the European Central Bank (ECB) raised rates in July by 0.25%, with the latter continuing hike in September. The ECB suggested that this rate might be sufficient to guide inflation back to its target. Despite the Federal Reserve and the Bank of England keeping rates steady in September, the market anticipates a longer period of elevated rates. This was the key driver of higher yields (meaning lower bond prices) over the quarter.

Led by the U.S., global government bond yields peaked in September before slightly retreating at the quarter's end. The U.S. 10-year yield rose from 3.81% to 4.57%, and the two-year yield increased from 4.87% to 5.05%. In Europe, Germany's 10-year yield increased from 2.39% to 2.84%.

Currencies

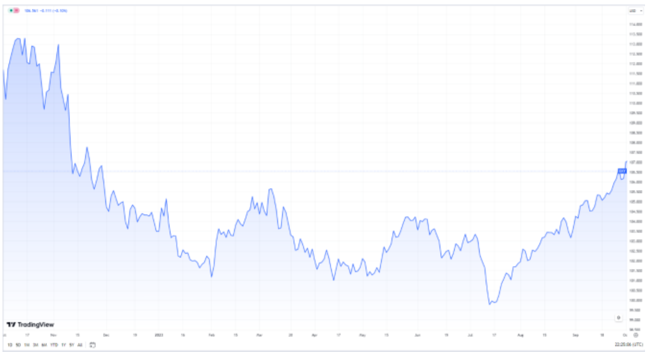
	Currency	30 Sep 2023 Price	1M return (%)	30 Jun 2023 Price	3M return (%)
▼	$A vs $US	0.64	-0.74	0.67	-3.42
▲	$A vs GBP	0.53	3.02	0.53	0.00
▲	$A vs YEN	96.12	1.87	96.16	-0.04
▲	$A vs EUR	0.61	1.79	0.61	-0.24
▼	$A vs $NZ	1.07	-1.23	1.09	-1.13
▲	$US vs EUR	0.95	2.57	0.92	3.31
▲	$US vs CNY	7.30	0.51	7.25	0.57
▲	$US vs GBP	0.82	3.87	0.79	3.63
▲	$US vs JPY	149.37	2.63	144.32	3.50
▲	$US vs CHF	0.92	3.66	0.90	2.29
▲	US Dollar Index	106.22	2.51	102.91	3.22

Source: Bloomberg, Insignia Financial

September saw the final interest rate meeting with Philip Lowe as the governor of the RBA. As expected, the RBA maintained the current interest rate of 4.1%, which marked the third month in a row of a “cautious pause” in hikes for Australia. The AUD was weaker over the quarter, which was partly due to a strong U.S. Dollar, as well as expectations of a continuing weak Chinese economy (our major export partner).

The U.S. dollar benefited from the resilience of its economy, as the market reduced expectations for any near-term interest rate decreases. As a result, while the Official Federal Reserve Rate increased by 0.25% over the quarter, the U.S. 10-year yield increased by 0.75%, increasing the attractiveness of U.S. treasuries for foreign investors and lifting the currency back towards recent highs.

DXY Year to Date 30 September 2023



Source: Tradingview.com, accessed 16/10/2023

Commodities

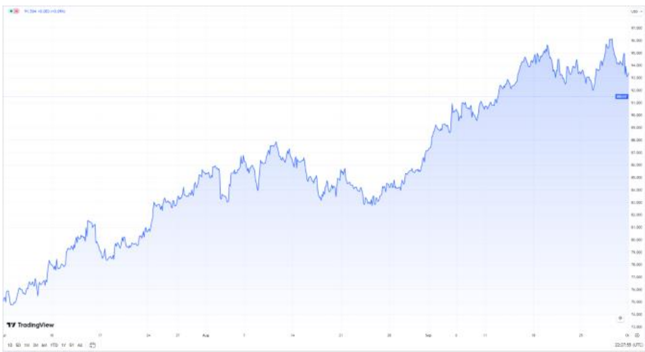
	Commodity	30 Sep 2023 Price	1M return (%)	30 Jun 2023 Price	3M return (%)
▲	Aluminium	2308	6.56	2097	10.06
▼	Copper	8231	-1.54	8210	0.25
▼	Nickel	18510	-8.48	20125	-8.02
▲	Zinc	2641	9.45	2363	11.74
▲	Crude Oil - Brent	95.31	9.19	74.51	27.92
▲	Natural Gas	2.93	5.82	2.80	4.68
▼	Metallurgical Coal	156	-1.36	159	-1.82
▲	Thermal Coal	153	8.52	160	-4.90
▲	Iron Ore	120.79	10.41	112.57	7.30
▼	Gold	1849	-4.70	1919	-3.68
▼	Silver	22	-9.25	23	-2.53

Source: Bloomberg, Insignia Financial

The performance of the commodities over the quarter was mixed as non-U.S. global growth continued to be weak. China’s reluctance to stimulate their economy with further debt driven policy has also weighed on select commodities. The change in price of Brent Oil was the standout over the quarter, as supply was curtailed by OPEC+.

The oil price continues to be influenced by the production cuts from OPEC+. The Brent Crude Oil price bucked the Chinese economic signals of weaker than expected demand with the production cuts helping support the price. In June, OPEC+ announced they would extend crude oil production cuts, limiting global crude oil supplies. On top of the OPEC+ production cuts, Saudi Arabia announced it would reduce crude oil production by an additional one million barrels per day for July. These additional voluntary production cuts were extended to the end of 2023.

Brent Crude Oil: 3 months to September 2023



Source: Tradingview.com, accessed 16/10/2023

Australia

Interest rates were kept at 4.1% at the October meeting, despite an increase in the monthly CPI indicator. Other economic data was mixed; the unemployment rate remained steady, as the slight increase in the participation rate offset the increase in employed people; the Trade Surplus declined as exports to China decreased and historical second quarter GDP proved resilient growing at 0.4%.

Monetary Policy

The Reserve Bank of Australia kept its cash rate unchanged at 4.1% on the 3rd of October. This was the first meeting under new Governor Michele Bullock and extending the rate pause for the fourth straight month. The steady state was in line with market expectations, with the RBA board re-iterating that inflation had passed its peak, but it was still too high. Policymakers warned that further monetary tightening may be needed to bring inflation to the target range in late 2025, but any rate adjustment will depend upon how the economy and prices evolve.

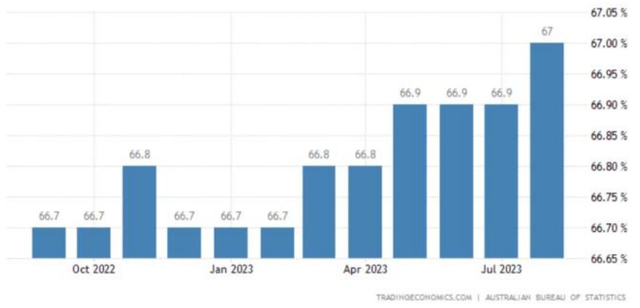
Inflation

The monthly Consumer Price Index (CPI) indicator in Australia climbed by 5.2% in the year to August, matching expectations but accelerating from the 4.9% gain in July, which was the lowest level in 17 months. It was the first increase in annual inflation since April, due mainly to faster rises in transport prices (7.4% vs 0.3%), with automotive fuel prices rising the most since November 2022. Also, inflation accelerated for communications (1.6% vs 0.3%); education (5.5% vs 5.2%); and insurance and financial services (8.8% vs 8.5%). Inflation eased for housing (6.6% vs 7.3%), with new dwelling prices rising the least since August 2021. The monthly CPI indicator excluding volatile items and travel advanced by 5.5% in August, down from the rise of 5.8% in July.

Labour Market

Australia's seasonally adjusted unemployment stood at 3.7% in August 2023, unchanged from July's three-month high and matching the market forecast. The number of unemployed individuals fell by 2,600 to 540,500, as people looking for part-time jobs dropped by 8,700 to 182,200, while those seeking full-time jobs increased by 6,000 to 358,300. At the same time, employment surged by 64,900 to 14.11 million, more than market forecasts of a 23,000 gain and rebounding from a 1,400 fall in July. Full-time employment advanced by 2,800 to 9.85 million, while part-time employment climbed by 62,100 to 4.26 million. The participation rate edged up to 67% from 66.9%, reaching an all-time high and coming in above forecasts of 66.7%.

Participation Rate: September 2022 to August 2023



Source: Tradingeconomics.com, ABS. Accessed 11/10/2023

Trade

Australia's trade surplus declined to $8.04 billion in July 2023 from a downwardly revised $10.27 billion in June, and below market forecasts of a $10 billion gain. It was the smallest trade surplus since February 2022, as exports shrank, while imports rose. Shipments fell by 2% from the previous month to a 16-month low of $53.92 billion, mainly due to a drop in exports to China, the country's top trading partner. Meanwhile, imports grew by 3% to $45.88 billion, mainly driven by non-industrial transport equipment.

Growth

The Australian economy expanded 0.4% QoQ in Q2, the same pace as Q1, but above market forecasts of 0.3%. This was the seventh straight period of economic growth, amid positive contribution from net trade as exports (4.3%) rose more than imports (0.7%). Also, fixed investment grew further (2.4% vs 2.4% in Q1), largely due to solid public investment (8.2% vs 3.7%) on the back of rising health and transport infrastructure investment. Government spending rose for the fourth straight quarter (0.4% vs 0.1%). However, household consumption was subdued due to elevated interest rates (0.1%% vs 0.3%). The household savings ratio fell to 3.2%, the lowest since Q2 of 2008, down from 3.6%. Through the year, the economy grew 2.1%, slowing from a 2.4% per annum gain in Q1.

United States

The Federal Reserve's latest dot-plot indicates another rate rise this year is still likely. While unemployment has gone up in the most recent figures, the labour market still remains tight.

Growth / Economic Activity

The Conference Board Leading Economic Index (LEI) for the U.S. declined by 0.4% in August 2023 to 105.4 (2016=100), following a decline of 0.3% in July. The LEI is down 3.8% over the six-month period between February and August 2023, little changed from its 3.9% contraction over the previous six months (August 2022 to February 2023).

"With August's decline, the U.S. Leading Economic Index has now fallen for nearly a year and a half straight, indicating the economy is heading into a challenging growth period and possible recession over the next year," said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. "The leading index continued to be negatively impacted in August by weak new orders, deteriorating consumer expectations of business conditions, high interest rates, and tight credit conditions. All these factors suggest that going forward economic activity probably will decelerate and experience a brief, but mild contraction.

Labour Market

The number of job openings rose by 690,000 from the previous month to 9.61 million in August 2023, well above the market consensus of 8.8 million and indicating a robust labour market despite the Fed's unprecedented monetary policy tightening measures. Job openings increased in professional and business services (+509,000), finance and insurance (+96,000), state and local government education (+76,000), non-durable goods manufacturing (+59,000), and federal government (+31,000). Openings were higher across all regions, namely in the Northeast (+51,000), the South (+278,000), the Midwest (+238,000), and the West (+124,000).

The unemployment rate in the U.S. was reported at 3.8% in September 2023, remaining unchanged from the February 2022 high from the previous month and slightly above market expectations of 3.7%. Still, the result consolidated evidence that the labour market remains tight on historical standards, adding leeway for the Federal Reserve to leave borrowing costs at restrictive levels for a prolonged period. The number of unemployed individuals was essentially unchanged at 6.36 million people. The so-called U-6 unemployment rate, which also includes people who want to work, but have given up searching and those working part-time because they cannot find full-time employment, edged lower to 7% after touching a 15-month high of 7.1% in August. In the meantime, the labour force participation rate was also unchanged at 62.8%, the highest since February 2020.

Inflation

The annual inflation rate in the U.S. accelerated for a second straight month to 3.7% in August from 3.2% in July, above market forecasts of 3.6%. Energy prices fed much of the gain, rising 5.6% on the month, an increase that included a 10.6% surge in gasoline prices.

Food prices rose 0.2%, while shelter costs, which make up about one-third of the CPI weighting, climbed 0.3%. Within shelter, the rent of primary residence index rose 0.5% and increased 7.8% from a year ago. Owners' equivalent rent, a key measure that gauges what homeowners believe they could get in rent, increased 0.4% and 7.3%, respectively.

Elsewhere in the report, airfares jumped 4.9%, but were still down 13.3% from a year ago. Used vehicle prices, an important contributor to inflation during its rise in 2021 and 2022, declined 1.2% and are down 6.6% year over year. Transportation services rose 2% on the month.

Excluding shelter from CPI would have resulted in an annual increase of only about 1%.

Interest Rates / Fed Policy

The Federal Reserve kept the target range for the federal funds rate at a 22-year high of 5.25%-5.50% at its September 2023 meeting, following a 0.25% hike in July, and in line with market expectations, but signalled there could be another hike this year.

Projections released in the dot-plot showed the likelihood of one more increase this year, then two cuts in 2024. Policymakers now see the fed funds rate at 5.60% this year, the same as in the June projection, while it is seen higher at 5.10% in 2024, compared to 4.60% seen in June.

China

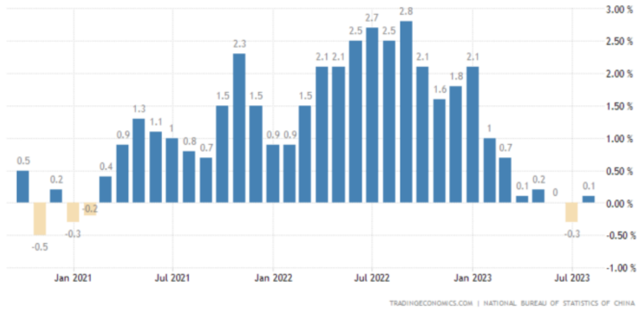
China's economy continues to lack momentum. While employment remains relatively stable, consumers are not responding to the recently announced support for the Housing market as we saw house prices decline further. The low levels of inflation are concerning, however, China's desire not to fuel an inefficient debt spiral is reducing its economic stimulus options.

Monetary Policy

The People's Bank of China (PBoC) maintained the 1-year Medium-Term Lending Facility Loan Rate, which the PBoC lends to big banks, at 2.50%. The PBoC also maintained the 1-year Loan Prime Rate (LPR), the medium-term lending reference for short-term corporate and household loans (< 5 years) at 3.45% and the 5-year LPR, which is the benchmark for mortgage rates at 4.20%.

Inflation

China Inflation Rate (YoY) Sept 2020 – Aug 2023



Source: Tradingeconomics.com, National Bureau of Statistics of China, Accessed 11/10/2023

Consumer prices rose by +0.1% YoY in August, below market forecasts of a +0.2% gain, but higher than the -0.3% decline in July. Non-food prices increased by 0.5%, picking up from a flat reading in July, as costs went up modestly for clothing (1.1% vs 1.0% in July), health (1.2% vs 1.2%), and education (2.5% vs 2.4%). The cost of food fell -1.7%, matching July's decline, with prices of pork continuing to decrease. Core consumer prices, excluding food and energy prices, rose +0.8% YoY, matching July. On a monthly basis, consumer prices gained 0.3% in August, matching consensus, but slightly higher than the 0.2% in July.

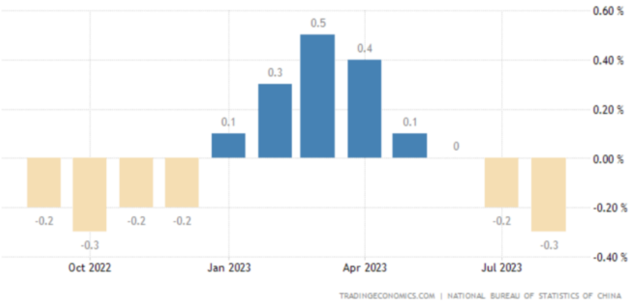
Employment

China's surveyed urban unemployment rate inched down to 5.2% in August from 5.3% in July, the equal lowest rate since December 2021. The surveyed unemployment rate was steady at 5.3% for the population with local household registration and but declined from 5.3% to 4.8% for the population with non-local household registration. The government has set a target for the jobless rate to be around 5.5% by the end of 2023 including the creation of 12 million new urban jobs to continue migration to the cities.

Housing

Average new home prices in China's 70 major cities dropped by 0.1% YoY in August, the same pace as in July amid a prolonged property downturn and stalling economic recovery. Among the biggest Chinese cities, prices continued to decline in both Shenzhen (-3.0% vs -2.8% in July) and Guangzhou (-1.4% vs -1.3%). Meantime, costs rose at softer paces in Beijing (2.8% vs 3.5%), and Shanghai (4.1% vs 4.5%). On a monthly basis, new home prices fell by -0.3% in August, the most in 10 months, after a 0.2% decrease in July. Despite recent efforts from the government to revive the ailing sector, consumer spending remains weak.

New House Prices (MoM) Sept 2022 – Aug 2023



Source: Tradingeconomics.com, National Bureau of Statistics of China, Accessed 11/10/2023

Trade

China's trade surplus slumped to US$68.36 billion in August from US$78.65 billion in the same period a year earlier, and coming in below forecasts of US$73.9 billion. Exports dropped more than imports amid persistently weak demand from home and abroad. Exports shrank -8.8% YoY, but was better than consensus of a -9.2% fall, while imports fell by -7.3%, better than consensus of a 9% drop. Considering the first eight months of the year, the country recorded a trade surplus of US$553.4 billion, with exports shrinking by 5.6%, while imports fell by 7.6%. The trade surplus with the United States widened to US$33.06 billion in August from US$30.3 billion in July, pushing the CYTD surplus to US$214.88 billion.

Europe

The euro area seasonally adjusted unemployment rate fell to 6.4% in August 2023, the lowest on record. The inflation rate in the Euro Area declined to 4.3% year-on-year in September 2023, reaching its lowest level since October 2021.

Growth / Economic Activity

The European Commission has recently presented the Summer 2023 Economic Forecast. The E.U. economy continues to grow, albeit with reduced momentum. The forecast revises growth in the E.U. economy down to 0.8% in 2023, from 1% projected in the Spring Forecast, and 1.4% in 2024, from 1.7%. It also revises growth in the euro area down to 0.8% in 2023 (from 1.1%) and 1.3% in 2024 (from 1.6%).

Latest data confirm that economic activity in the E.U. was subdued in the first half of 2023 on the back of the formidable shocks that the E.U. has endured. Weakness in domestic demand, in particular consumption, shows that high and still increasing consumer prices for most goods and services are taking a heavier toll than expected in the Spring Forecast. This is despite declining energy prices and an exceptionally strong labour market, which has seen record low unemployment rates, continued expansion of employment, and rising wages. Meanwhile, the sharp slowdown in the provision of bank credit to the economy shows that monetary policy tightening is working its way through the economy. Survey indicators now point to slowing economic activity in the summer and the months ahead, with continued weakness in industry and fading momentum in services, despite a strong tourism season in many parts of Europe.

Inflation

The inflation rate in the Euro Area declined to 4.3% year-on-year in September 2023, reaching its lowest level since October 2021 and falling below the market consensus of 4.5%, a preliminary estimate showed. Prices increased at a slower pace for services (4.7% vs. 5.5% in August), non-energy industrial goods (4.2% vs. 4.7%), and food, alcohol & tobacco (8.8% vs. 9.7%). Meanwhile, the deflation in energy costs deepened (-4.7% vs. -3.3%). The core inflation rate, a crucial underlying measure that filters out volatile food and energy prices, also cooled to 4.5% in September, marking its lowest point since August 2022. Among the largest economies in the Eurozone, the Harmonised Index of Consumer Prices (HICP) rate decreased in Germany (4.3% vs. 6.4%), France (5.6% vs. 5.7%), and the Netherlands (-0.3% vs. 3.4%). However, in Italy and Spain, inflation rates accelerated to 5.7% and 3.2% from 5.5% and 2.4%, respectively.

Labour Market

According to Eurostat, the euro area seasonally adjusted unemployment rate fell to 6.4% in August 2023, the lowest on record, from an upwardly revised 6.5% in July, in line with market expectations. A year earlier, the jobless rate was higher at 6.7%. The number of unemployed people decreased by 107,000 from a month earlier to 10.856 million. Amongst the largest Euro Area economies, the lowest jobless rate was recorded in Germany (3%), while the highest rates were observed in Spain (11.5%), Italy (7.3%) and France (7.3%). Meanwhile, the youth unemployment rate, measuring jobseekers under 25 years old, edged down to an all-time low of 13.8% in August 2023, from 13.9% in July.

Policy

At the ECB's 14 September meeting, the Governing Council decided to raise the three key ECB interest rates by 0.25%. Accordingly, the interest rate on the main refinancing operations, and the interest rates on the marginal lending facility, and the deposit facility, were increased to 4.50%, 4.75% and 4.00% respectively, with effect from 20 September 2023.

In its statement post the latest meeting, the ECB stated that inflation continues to decline, but is still expected to remain too high for too long. The ECB has again stated that the Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner.

The Governing Council's past interest rate increases continue to be transmitted forcefully. Financing conditions have tightened further and are increasingly dampening demand, which is an important factor in bringing inflation back to target. With the increasing impact of this tightening on domestic demand and the weakening international trade environment, ECB staff have lowered their economic growth projections significantly. They now expect the euro area economy to expand by 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025.

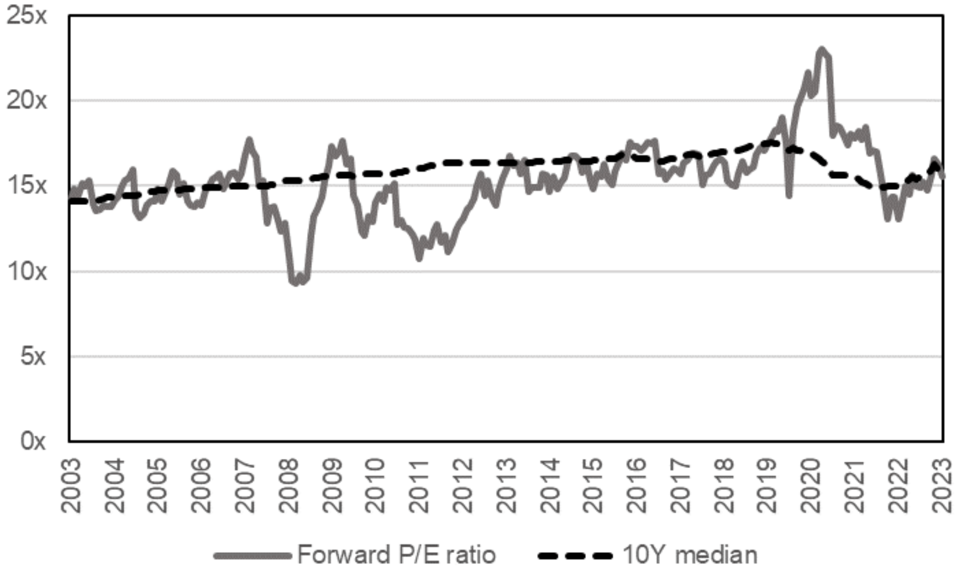
Economic Scorecard – As of 16 October 2023

The below summarises the current position of major markets across Growth, Inflation, Interest Rates and Currencies. It also provides Insignia Research's view on the likely direction of these economic indicators over the next 12 months. **Please note that these views are not guarantees, and a range of factors could impact their direction such that the end outcomes are different to our predictions.**

	USA			Australia			EuroZone			China		
	Current	**Direction**	**1 year forward**	**Current**	**Direction**	**1 year forward**	**Current**	**Direction**	**1 year forward**	**Current**	**Direction**	**1 year forward**
Growth (Latest Qtr Nominal GDP)	0.5% (Below trend)	Moderating	Recession / Below trend	0.4% (Below trend)	Moderating	Recession / Below trend	0.1% (Below trend)	Weakening	Recession / Below trend	0.8% (Below trend)	Moderating	Below trend / Recession
Inflation (Headline CPI)	3.7% (Above target)	Slowly falling	Very slightly above target	6.0% (Significantly Above target)	Falling	Lower, but still above target	4.3% (Above target)	Slowly falling	Lower, but still above target	0.0% (Below target)	Slowly returning towards trend	Target / Slightly below target
Interest Rates (official cash rate or equivalent)	5.25%-5.50%	Marginal increase	5.50%-5.75%	4.10%	Flat	4.10% (Stable)	4.50%	Flat	4.50% (Stable)	3.45%	Reducing	3.00%
		AUD/USD										
Currencies (relative PPP basis)	0.632 (PPP 0.705) less than 1 Std Dev	Risk off	Still within fair value range									

Market valuations (Forward P/E vs 10Y median Forward P/E)

Australian Shares Forward P/E – spot vs trailing 10Y median (September-13 to September-23)



Sources: FactSet, MSCI, S&P (September 2023)

Australian Shares based on the S&P/ASX 200 Index.

Performance as of 30 September 2023

					Annualised						
		1-mth	3-mth	6-mth	1-yr	3-yr	5-yr	7-yr	10-yr	15-yr	20-yr
Shares	Australia	-2.8%	-0.8%	0.2%	13.5%	11.0%	6.7%	8.0%	7.4%	7.4%	8.6%
	Australia - mid cap	-4.6%	-1.7%	2.8%	10.3%	11.0%	7.7%	9.6%	11.2%	8.2%	9.8%
	Australia - small cap	-4.0%	-1.9%	-2.5%	6.8%	2.6%	1.6%	4.3%	5.1%	3.7%	5.3%
	Australia - micro cap	-4.9%	-5.3%	-7.6%	-3.0%	7.4%	8.0%	6.5%	7.0%	4.9%	-
	World ex Australia	-4.0%	-0.4%	7.2%	21.6%	11.9%	9.8%	12.1%	12.5%	9.6%	8.2%
	World ex Australia (Hedged)	-3.6%	-2.8%	3.5%	18.1%	6.9%	5.7%	8.4%	8.7%	8.8%	8.8%
	World - small cap	-4.9%	-1.4%	2.4%	13.6%	10.0%	5.5%	9.0%	10.3%	9.8%	8.7%
	Emerging Markets	-2.3%	0.1%	1.6%	11.3%	1.8%	2.9%	5.8%	5.9%	5.2%	7.6%
Property & Infrastructure	A-REITS	-8.6%	-2.9%	0.4%	12.5%	4.7%	2.5%	3.2%	7.3%	5.0%	5.3%
	Global REITs	-5.8%	-2.9%	-2.0%	1.3%	4.2%	1.0%	2.2%	5.9%	-	-
	Global REITs (hedged)	-5.6%	-5.2%	-4.4%	-0.4%	1.1%	-1.7%	-0.1%	3.3%	4.4%	-
	Global infrastructure	-4.3%	-5.1%	-4.8%	0.1%	6.7%	5.7%	6.7%	9.1%	-	-
	Global infrastructure (Hedged)	-4.1%	-7.3%	-8.2%	-2.7%	2.6%	2.8%	4.0%	6.4%	8.2%	-
Fixed income	Australia Total Market	-1.5%	-0.3%	-3.2%	1.6%	-3.9%	0.3%	0.7%	2.3%	3.8%	4.2%
	Australia government bonds	-1.7%	-0.6%	-3.9%	1.0%	-4.4%	0.2%	0.4%	2.2%	3.6%	4.2%
	Australia corporate bonds	-0.6%	1.3%	0.1%	4.7%	-1.3%	1.7%	2.1%	3.1%	4.8%	4.9%
	Australia floating rate bonds	0.4%	1.3%	2.5%	4.6%	1.9%	2.1%	2.3%	2.6%	3.7%	-
	Global Total Market (Hedged)	-1.8%	-2.1%	-2.4%	0.5%	-4.6%	-0.2%	0.0%	2.2%	4.3%	4.8%
	Global government bonds (Hedged)	-1.7%	-2.2%	-2.5%	-0.2%	-4.6%	-0.3%	-0.1%	2.2%	4.1%	-
	Global corporate bonds (Hedged)	-2.0%	-2.0%	-2.3%	2.8%	-4.9%	0.0%	0.4%	2.6%	5.4%	-
	Global high yield bonds (Hedged)	-1.2%	0.2%	1.7%	10.3%	-0.4%	0.8%	2.0%	3.9%	7.8%	7.7%
Cash	Bloomberg AusBond Bank Bill Index	0.3%	1.1%	2.0%	3.6%	1.4%	1.3%	1.4%	1.7%	2.6%	3.5%

Sources: FactSet, Lonsec

Appendix – Index sources

Asset class	Index
Australian equities (S&P/ASX 200)	S&P/ASX 200 Accumulation Index
Australian equities - Mid caps	S&P/ASX Accumulation Midcap 50 Index
Australian equities - Small caps	S&P/ASX Accumulation Small Cap Ordinaries Index
Australian equities - Micro caps	S&P/ASX Emerging Companies Total Return Index
International equities	MSCI World ex Australia Net Total Return (in AUD)
International equities (Hedged)	MSCI World ex Australia Hedged AUD Net Total Return Index
International equities - Small caps	MSCI World Small Cap Net Total Return USD Index (in AUD)
Emerging Markets equities	MSCI Emerging Markets EM Net Total Return AUD Index
Australian REITs	S&P/ASX 200 A-REIT Accumulation Index
Global REITs	FTSE EPRA/NAREIT Developed Index Net Total Return (in AUD)
Global REITs (Hedged)	FTSE EPRA/NAREIT Developed Index Net Total Return (Hedged to AUD)
Global Infrastructure	FTSE Global Core Infrastructure 50/50 Net Total Return in AUD
Global Infrastructure (Hedged)	FTSE Global Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index
Australian bonds	Bloomberg AusBond Composite 0+ Yr Index
Australian bonds – government	Bloomberg AusBond Govt 0+ Yr Index
Australian bonds – corporate	Bloomberg AusBond Credit 0+ Yr Index
Australian bonds - floating rate	Bloomberg AusBond Credit FRN 0+ Yr Index
Global bonds (Hedged)	Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD
Global bonds - government (Hedged)	Bloomberg Barclays Global Aggregate Treasuries Total Return Index Hedged AUD
Global bonds - corporate (Hedged)	Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged AUD
Global bonds - High Yield (Hedged)	Bloomberg Barclays Global High Yield Total Return Index Hedged AUD
Cash (AUD)	Bloomberg AusBond Bank Bill Index